

May 24, 2010

The Randolph County Board of Commissioners met in special session at 6:00 p.m. in the Commissioners Meeting Room, County Office Building, 725 McDowell Road, Asheboro, NC. Commissioners Holmes, Frye, Haywood, Kemp and Lanier were present. The purpose of this meeting was to hear a formal presentation of the Proposed FY 2010-2011 Budget.

Will Massie, Assistant County Manager/Finance Officer, presented the Proposed FY 2010-2011 Budget via PowerPoint presentation. He listed the following pressures the County faces with the 2010-11 Budget:

- the need to replace the use of reserves included in FY09 and FY 10 budgets for school debt service;
- the need to replace the use of reserves for school current expense;
- repercussions of State budget crisis passed on to counties by actions of NC General Assembly;
- County revenue loss due to recession.

Mr. Massie pointed out the following highlights in the proposed budget:

- no reduction in School appropriations;
- County departments reserved three percent in operating costs, in addition to three percent that was cut in FY09-10;
- no new requested positions for County departments;
- seven percent increase in medical costs for County employees;
- local government retirement system rates rose from 4.9% to 6.45%;
- request for \$150,000 for Jail renovation project was not included;
- request for \$35,000 for replacement of EMS vehicle was not included;
- request for \$4,548 to reclassify a Soil & Water Conservation District position to a higher grade was not included;
- no County employee pay plan adjustment;
- Public Works Department has recommended the tipping fee increase to \$50/ton to cover the costs of the new solid waste disposal contract; the last increase was 2007 to \$44.

Mr. Massie said that debt issuances in 2006 and 2007 will impact our budgets for many years. A total of \$15,350,565 is needed to fund our debt service requirements for fiscal year 2010-11, which is 13.7% of this Proposed Budget. Mr. Massie noted that 87% of the debt service is for educational purposes. The following table provides a breakdown of the purposes for which debt service is paid:

	2010-2011
Randolph County Schools	\$ 11,768,283
Asheboro City Schools	\$ 1,266,284
Randolph Community College	\$ 280,727
County Facilities	\$ 1,251,886
Water Distribution	\$ 783,385
Total:	\$ 15,350,565

Mr. Massie said that for many years, the budget has depended on appropriations of fund balance as a financing resource to increase appropriations for public school current expense. Fund balances are accumulated reserves, which serve many purposes, including as an emergency reserve. Also for many years, we experienced stronger than expected revenue growth, received unusual special one-time monies, and departments had under-spent expenditures to a level sufficient to offset the appropriations of fund balance. Until the recession, we were extremely fortunate to avoid actually using fund balance to pay for these additional expenditures. Our conservative budgeting, dedicated staff, and relatively strong fund balance made this risk possible. However, as our department budgets are cut and as economic forces beyond our control limit any revenue growth, we actually are using a significant amount of fund balance in our current budget (FY2009-10). A considerable amount of our reserves will be drained to get us through the end of the fiscal year. We currently have \$7.4 million appropriated with little hope of recovering it. In other words, appropriated fund balance has changed from being merely a budgeting tool to become harsh financial reality.

Mr. Massie also noted that there is a possibility that the State may take lottery proceeds away from counties, but \$2,275,000 of lottery proceeds remains in this Proposed Budget. However, by the time the State budget is completed, other programs may be mandated for counties to pay. Unfortunately, we have no control over actions by the State legislature. In exchange for the State taking over some program costs, counties lost one-quarter percent of its sales tax rate in 2009 and another one-quarter percent in 2009-10. Also in October 2009, the distribution method for a portion of our sales taxes changed from per capita to point of sale. Finally, there is a requirement that counties hold municipalities harmless from the revenue swap. All these provisions further reduced Randolph County's sales tax revenues.

After the takeover of Medicaid by the State last year and the swap of these revenues, sales taxes are becoming a smaller proportion of the County budget than in the past. Five years ago, sales taxes represented about twenty-two percent of the budget; for 2010-11, it will become less than fourteen percent. For this and future budgets, we must rely on property taxes as our largest financial resource, the primary one where we can control the level of revenues. We are becoming more like other counties that have to rely on property taxes to maintain and improve services.

In the 2010-11 budget, the Board must address realistic funding of the additional school debt service costs and school current expense appropriations. In 2004, there was an urgency to address the overcrowding in our schools. Today, there is an urgency to pay for this commitment.

The 2010-11 Proposed Budget includes no increase for Current Expenses for public schools. Total average daily membership (ADM), or student enrollment in the K-12 grades, is projected to increase countywide by 36 students or .16% for next year. However, the ratio of average daily membership between the Randolph County Schools and the Asheboro City Schools shifted by .02% for fiscal year 2010-11, resulting in more Current Expense and Capital funding apportioned to the Asheboro City Schools. The Asheboro City Schools capital request includes \$5.5 million for their old Balfour School project and a \$7,500 request for other capital renovations, neither of which is included in the Proposed Budget.

No increase for Randolph Community College current expense is proposed; due to the availability of sales tax proceeds for RCC capital needs, the Proposed Budget includes a

reduction of the current capital appropriation by \$233,000 in 2010-11. Current appropriations to public schools and the community college make up over 25% of the proposed 2010-11 budget.

The following shows education requests and recommendations in the Proposed budget:

	Requested	Proposed
Randolph County Schools		
Current Expense	\$18,103,500	\$ 17,909,665
Current Capital	\$ 2,311,225	\$ 2,310,649
Asheboro City Schools		
Current Expense	\$ 4,521,564	\$ 4,424,373
Current Capital	\$ 600,000	\$ 570,819
Construction Capital	\$ 5,757,500	\$ 250,000
Randolph Community College		
Current Expense	\$ 2,505,443	\$ 2,400,000
Current Capital	\$ 733,000	\$ 500,000

Mr. Massie noted that the Proposed Budget contains a \$2,000,000 transfer to the Randolph Community College Capital Project, which represents the expected proceeds of the Article 46 ¼-cent sales tax, which will be effective July 1, 2010.

Mr. Massie said that the FY 2010-2011 Proposed Budget is based on a property tax rate of 64.6 cents per \$100 valuation and a collection rate of 97.20%; this is an increase of 9.1 cents over the current tax rate (55.5 cents). In 2010, Randolph's tax rate was the 34<sup>th</sup> lowest in the state of North Carolina. The average State rate in 2010 was 61.61 cents. Mr. Massie noted that several neighboring counties have a tax rate higher than Randolph. At the current valuation and collection rate, one cent on the tax rate produces \$981,720. The estimated property valuation for 2010-11 remains at \$10,100,000,000, the same as the past two fiscal years. Lack of residential and commercial development, decline in new car sales, and a slowdown in the replacement of business equipment have limited growth in the property base. Every year, there is \$100 million in depreciation on personal property, and we may have trouble maintaining the current tax base until property development and business investment resumes. In fact, several special taxing districts will see declining values. According to Mr. Massie, to fund the entire requested budget this year, a property tax rate of 71.26 cents would have been necessary.

Revenues in the Proposed Budget, including other taxes, permits and fees are negatively impacted by the lack of new property development and the slowdown in the real estate market. As long as residential and commercial development remains stalled, this will have an effect on many of our fees, such as zoning permits, building inspection fees, well and septic permits. Accordingly, 2010-11 revenues were budgeted at the same or lower levels. Fortunately, we are beginning to see some increased activity in inspections.

The financial crisis resulting from sub-prime mortgage failures caused the Federal Reserve to dramatically lower interest rates, which reduces the interest earnings available to us. The Federal Reserve has maintained the Federal Discount rate during the past year near zero. As we use fund balance in 2010, we are, in effect, shrinking our available cash reserves. Accordingly, we cannot expect our investment earnings to match the past year, even if the Fed begins raising interest rates. Only \$410,000 is budgeted for 2010-11, a decrease of \$100,000.

Mr. Massie said that the County currently has several active capital project ordinances. The Randolph Community College Capital Project is used to account for proceeds of the Article 46 sales tax, which will be used to fund pay-as-you-go facility improvements. The Energy Efficiency Capital Project is used to account for Federal grant proceeds restricted to improve energy usage in County buildings. The Technology Capital Project accounts for the transfer of monies from the General Fund to make major upgrades to the County's technology systems. A Rural Water Infrastructure Capital Project accounts for projects to create a network of major water transmission lines into rural areas not served with treated water.

Mr. Massie mentioned that last year, the proposed budget highlighted the deficit and the Board had the opportunity to discuss options. In the end, the Board of Commissioners came to the conclusion that, because of the recession, the best use of available fund balance would be to buffer citizens from a tax increase for another year. Unfortunately, due to debt service obligations for the two new high schools, the need to replace the use of prior and current year reserves for debt service and schools current expense, county revenue loss due to the bad economy and continuing new obligations passed onto counties by the NC General Assembly, the Board is faced with the unpopular, but necessary job of raising taxes in order to provide required services to its citizens and to fund prior commitments.

#### **Adjournment**

At 6:53 p.m., there being no further business, the meeting adjourned.

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J. Harold Holmes, Chairman

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Darrell L. Frye

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Phil Kemp

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Arnold Lanier

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Stan Haywood

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Cheryl A. Ivey, Clerk to the Board